

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 41401

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/06 AND ENDING 12/31/06
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: GDK, Inc. c/o Prime Management

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

Mechanics Building, 12 Church Street

(No. and Street)

Hamilton

(City)

Bermuda

(State)

APR 04 2007

HM11

THOMSON
FINANCIAL (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Joseph Kelly

(441) 295-0329

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP

(Name - if individual, state last, first, middle name)

5 Times Square

(Address)

New York

(City)

NY

(State)

10036

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

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SECURITIES AND EXCHANGE COMMISSION RECEIVED MAR 1 2007 BRANCH OF REGISTRATIONS AND EXAMINATIONS 04
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Report of Independent Registered Public Accounting Firm

The Board of Directors
GDK, Inc.

We have audited the accompanying statement of financial condition of GDK, Inc. (the "Company") as of December 31, 2006. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of GDK, Inc. at December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Ernst & Young LLP

February 26, 2007

GDK, INC.

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2006
(In thousands of U.S. dollars)

ASSETS

Cash and cash equivalents	\$	5,330
Due from broker, net		4,389,086
Securities owned, at market or fair value		9,444,361
Investment in other fund		60,037
Other assets		120
		<hr/>
TOTAL ASSETS	\$	<u>13,898,934</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Securities sold, not yet purchased, at market or fair value	\$	8,984,344
Securities loaned		67,706
Incentive fee payable		42,270
Deferred incentive fee		317,096
Redemptions payable		61,375
Floor brokerage fee payable		1,846
Accrued expenses and other liabilities		3,042
		<hr/>
TOTAL LIABILITIES		9,477,679
Shareholders' equity		<u>4,421,255</u>
		<hr/>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	<u>13,898,934</u>

The accompanying notes are an integral part of this statement of financial condition.

GDK, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2006

1. Organization

GDK, Inc. (the "Company"), a broker-dealer registered with the Securities and Exchange Commission ("SEC") of the United States and a member of the Chicago Stock Exchange, commenced operations in July 1989. The Company, a British Virgin Islands corporation, maintains its principal office in Bermuda and primarily trades equities that are listed on U.S. exchanges exclusively for its own account.

The Company's Trading Advisor is Caxton Associates, L.L.C. (the "Advisor"), a Delaware, U.S.A. limited liability company. The manager of the Company is Prime Management Limited ("Prime"), a Bermuda company. The Company's Trading Manager is A.R.T. Advisors, LLC, a Delaware, U.S.A. limited liability company (the "Trading Manager").

2. Significant Accounting Policies

Basis of Presentation

This statement of financial condition has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are expressed in U.S. dollars. Preparation of the statement of financial condition in accordance with U.S. GAAP requires management to make estimates and assumptions that could affect the amounts reported in the statement of financial condition and accompanying notes. Management believes that the estimates used in preparing the statement of financial condition are reasonable. Actual results could differ from these estimates.

Cash Equivalents

Cash equivalents may include money market accounts, overnight funds, time deposits, commercial paper and U.S. treasury bills with a maturity of 3 months or less at the time of purchase and are carried at cost plus accrued interest, which approximates fair value. At December 31, 2006, cash and cash equivalents primarily consist of cash and shares in a money market fund held at one financial institution.

GDK, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

DECEMBER 31, 2006

2. Significant Accounting Policies (continued)

Valuation of Trading Positions

Trading positions of the Company are valued at market or fair value on a trade date basis. Market value is generally based on quoted market prices. If quoted market prices are not available, fair value is determined based upon other relevant factors, including dealer price quotations and pricing models. Pricing models consider the time value, volatility and other economic factors of the financial instruments. The resulting change in unrealized profit or loss is reflected in shareholders' equity.

Subsequent market fluctuations of securities sold, not yet purchased, may require purchasing the securities at prices which differ from the value reflected on the statement of financial condition.

Trading positions, which include securities owned and securities sold, not yet purchased, are accounted for on a trade date basis. Dividends, including those on securities sold, not yet purchased, are recognized on ex-dividend date, net of applicable taxes. Interest is recognized on the accrual basis.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires the Company to report the fair value of financial instruments, as defined. Other than the Company's trading positions (which are carried at market or fair value), substantially all of the Company's financial instruments are carried at contract value, which approximate market value due to their relatively short-term nature and/or variable market rates of interest.

Valuation of Investment in Other Fund

The Company held an approximately 41% interest in an investment fund, a Cayman Islands entity (the "Cayman Islands Entity"), at December 31, 2006 to hedge its obligations with respect to deferred incentive fees due to the Trading Manager. The Company's interest is in the form of Class C voting shares (the "Shares"), which are generally redeemable annually. The Company's interest in the Cayman Islands Entity is included in investment in other fund on the statement of financial condition.

GDK, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

DECEMBER 31, 2006

2. Significant Accounting Policies (continued)

Valuation of Investment in Other Fund (continued)

The Company values its investment in the Cayman Islands Entity at the amount equal to the Company's attributable share of the net assets of the investee company. The Cayman Islands Entity values substantially all of its assets and liabilities at amounts which approximate fair value.

Collateralized Securities Transactions

Securities loaned, which are collateralized by cash, are treated as collateralized financing transactions and are recorded at the amount of collateral received. Securities loaned transactions require the borrower to deposit cash with the Company. The Company monitors the market value of securities loaned on a daily basis, with additional collateral obtained or refunded as necessary. These transactions are executed with one major financial institution. The Company receives a reduced interest rate on margin balances outstanding with this financial institution. Market value of loaned securities and collateral received at December 31, 2006 was approximately \$67.7 million and \$68.0 million, respectively.

Commissions and Soft Dollar Arrangements

Commissions are realized upon the execution of the trade.

In exchange for the direction of commission dollars to certain brokers, the Trading Manager may generate credits or "soft dollars." The Trading Manager will have the option to use these soft dollars generated by the Company to pay for research related products and services. Section 28 (e) of the U.S. Securities Exchange Act of 1934, as amended, provides a "safe harbor" to trading advisors who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the advisor in the performance of investment decision-making responsibilities.

GDK, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

DECEMBER 31, 2006

2. Significant Accounting Policies (continued)

Commissions and Soft Dollar Arrangements (continued)

The Company does not apply any rigid formula for selecting brokers or dealers to effect transactions, nor does it have fixed internal brokerage procedures designating specific percentages of brokerage commissions to particular brokerage firms. The Company is authorized to incur higher prices for the purchase of securities from, or accept lower prices for the sale of securities to, brokerage firms that provide it with investment and research information or to pay higher commissions to such firms if the Company determines such prices or commissions are reasonable in relation to the overall services provided by such brokerage firms.

Income Taxes

The Company is not subject to income tax under current legislation.

3. Due From Broker, Securities Owned & Securities Sold, Not Yet Purchased

At December 31, 2006, the amount due from broker, securities owned, and securities sold, not yet purchased, were with one major financial institution. Substantially all securities owned and securities sold, not yet purchased, at December 31, 2006 are publicly traded U.S. equities. No single long or short position or industry concentration exceeds 10% of shareholders' equity.

Securities transactions of the Company are primarily maintained, cleared and held by a registered U.S. broker-dealer pursuant to a Joint Back Office Agreement. At December 31, 2006, the due from broker balance in the statement of financial condition includes the following:

Cash at broker- restricted	\$ 4,381 million (net of margin loan of \$4,676 million)
Transactions pending settlement, net	8 million
Due from broker, net	<u>\$ 4,389 million</u>

GDK, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

DECEMBER 31, 2006

3. Due From Broker, Securities Owned & Securities Sold, Not Yet Purchased (continued)

The cash at the broker is primarily related to securities sold, not yet purchased; its use is therefore restricted until the securities are purchased. Securities sold, not yet purchased, are also collateralized by the Company's securities owned. The margin loan is collateralized by certain of the Company's securities owned and cash held at the broker. Interest on debit and credit balances are paid based on the broker's institutional rate. Margin requirements for securities sold, not yet purchased, at December 31, 2006 of approximately \$2,410 million were satisfied by securities owned and cash at broker.

4. Related Party Disclosures

The Advisor is the trading advisor to three of the Company's shareholders and the Managing Member of one of the Company's shareholders. An officer of the Advisor is also an officer and a director of the Company. In addition, an officer of the Company is also an officer of Prime. The Advisor is a member of the Trading Manager.

5. Trading Advisory and Incentive Fee

The Trading Manager has been sub-delegated authority to provide discretionary investment and trading advisory services to the Company. The Advisor must authorize the Trading Manager's use of any financial instruments other than foreign or U.S. exchange traded securities.

Under the terms of the Advisory Agreement, the Company paid the Trading Manager a monthly advisory fee based on an annual rate of 0.9% of the average monthly net asset value of the Company. Advisory fees payable of approximately \$2.9 million are included in accrued expenses and other liabilities at December 31, 2006. Fees may be waived at the Trading Manager's discretion. Under the terms of the management fee agreement with Prime, the Company pays a fixed fee of \$18,150 annually.

Under the terms of the Advisory Agreement, the Trading Manager earned an incentive fee at a rate of 19% of Net Profits as defined in the Advisory Agreement. The Trading Manager may, at its sole discretion, waive, in whole or in part, the incentive fee for certain related parties. Prior to the beginning of any fiscal year, the Trading Manager may elect to defer the payment of all or a portion of the incentive fee that may become payable in that year. Incentive fees of approximately \$77.8 million were earned and accrued as of December 31, 2006. The Trading Manager has elected to defer approximately \$35.5 million of the incentive fees earned in 2006 for a minimum of 6 years.

GDK, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

DECEMBER 31, 2006

5. Trading Advisory and Incentive Fees (continued)

The Trading Manager may, from time to time, designate one or more indices for deferred fees, including an index measured by the annual rate of return of the Company, grossed up by any management, advisory fees and incentive fees payable by the Company, or to the value of certain investment funds as outlined in the Deferred Incentive Fee Agreement ("Deferral Agreement"). In 2006, the indexing of the deferred incentive fee resulted in an increase in the amount payable of approximately \$29.0 million. Deferred incentive fee payable consists of a portion of incentive fees earned in 2002, 2004, 2005 and 2006 (plus appreciation or depreciation from the rates of return of the designated indices), which were deferred generally for a minimum of five years from the date they were earned.

At December 31, 2006 the deferred incentive fee liability on the statement of financial condition is scheduled to be paid as of December 31st of each year, as follows:

Deferred Incentive Fee Payments	
	(In thousands)
2006	\$ -
2007	-
2008	25,376
2009	26,145
2010	29,268
Thereafter	236,307
	<u>\$ 317,096</u>

To the extent the Trading Manager has chosen, under the terms of the Deferral Agreement with the Company, to designate an index other than the rate of return of the Company, the Company has decided to invest in certain assets to hedge its obligation to pay deferred fees (plus appreciation or depreciation from the rates of return of the designated indices) to the Trading Manager.

6. Shareholders' Equity

The Company's capital structure consists of three classes of common stock, Class A, Class B and Class C. Each class has identical voting rights. The Company is authorized to issue a total of 150,000 voting shares of all classes, \$.10 par value. As of December 31, 2006, there were 19,337.15 Class A shares, 2,468.65 Class B shares, and 769.15 Class C shares outstanding.

GDK, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

DECEMBER 31, 2006

6. Shareholders' Equity (continued)

Class B shares are not charged advisory fees or incentive fees. Class C shares are not charged incentive fees.

At December 31, 2006, an affiliated entity, a British Virgin Islands corporation (the "BVI Entity") owned an approximately 84% interest in the Company, in the form of all the outstanding Class A shares. The BVI Entity has a trading advisory agreement with the Advisor.

At December 31, 2006, shareholders redeemed 256.16 Class B shares, valued at approximately \$58.04 million, and 16.15 Class C shares, valued at approximately \$3.34 million. These amounts are included in the statement of financial condition as redemptions payable.

7. Risk Management

Risk is an inherent part of the Company's activities. The principal risks the Company faces are market, credit, liquidity, and operational risks, among other risks. While these risks can not be eliminated, they can be mitigated through a range of monitoring and analytical techniques.

Market risk is the risk that a change in the level of one or more market factors such as market price, rates, indices, volatilities, and correlations will result in losses for a position or portfolio. The Company incurs market exposure through its trading and hedging activities throughout its portfolio. The Company's portfolio of positions and investments are monitored to maintain appropriate levels of risk and volatility.

The Trading Manager also employs stress testing, event risk analysis and other risk measurement methods and tools to assess risk on an ongoing basis. However, such tools assist the Trading Manager in evaluating potential market risk but do not independently limit risk.

Credit risk includes the risk that a counterparty or an issuer of securities or other financial instruments will be unable to meet its contractual obligations and fail to deliver, pay for or execute a trade. The Company's credit exposure is largely limited to professional counterparties in the financial sector and organized exchange or clearinghouse. Credit risk will also be incurred when the Company enters into collateralized financing transactions. The Company minimizes credit risk associated with these activities by monitoring collateral values on a daily basis and requiring additional collateral to be deposited with the Company when deemed necessary.

GDK, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

DECEMBER 31, 2006

7. Risk Management (continued)

Liquidity risk relates to the ability to raise capital or liquidate an asset in a timely manner at a reasonable price. The Trading Manager manages liquidity risk by investing primarily in marketable securities and monitoring the Company's positions against the reported trading volume of such securities.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from disruptions caused by external events. The Advisor and Trading Manager maintain controls that include systems and procedures to record and reconcile transactions and positions. The Advisor and Trading Manager have a disaster recovery plan to facilitate the continuity of critical operations in the event of a business disruption.

To the extent that the Company trades and invests in emerging markets, such trading will require increased consideration of the foregoing risks, as well as consideration of risks not typically associated with investing in more developed countries and markets. Such risks include: (i) political and economic uncertainty, including the risk of nationalization, expropriation and war; (ii) higher rates of inflation and greater governmental intervention or instability; (iii) limitations on foreign investment and on repatriation of invested capital; and (iv) acute price, market and currency volatility.

8. Net Capital Requirement

As a registered broker-dealer which trades for its own account, the Company is subject to the Uniform Net Capital Rule (the "Rule") of the SEC which requires that the Company maintain minimum net capital, as defined, and requires that the ratio of aggregate indebtedness to net capital, as defined, not exceed 15 to 1. Net capital and aggregate indebtedness vary from day to day, but as of December 31, 2006 the Company had net capital of approximately \$1.95 billion which exceeded requirements by approximately \$1.92 billion, and a ratio of aggregate indebtedness to net capital of .22 to 1. The Company is also subject to certain notification provisions of the Rule relating to the withdrawal of capital.

The Company does not effect transactions for anyone defined as a customer under SEC Rule 15c3-3. Accordingly, the Company is exempt from the requirements of this Rule under Section (k)(2)(ii).

END